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**House of Representatives**

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July 31, 2023

Henry Fernandez  
Chairman and Chief Executive Officer  
MSCI Inc.  
7 World Trade Center  
250 Greenwich Street  
New York, NY 10007

Dear Mr. Fernandez,

We write to request information about Morgan Stanley Capital International's (MSCI) facilitation of American capital flows to Chinese companies that have been blacklisted by the U.S. government because of their role in fueling the People's Republic of China's (PRC) military advancement or in facilitating the Chinese Communist Party's (CCP) human rights abuses. As described below, a brief review of just a few of MSCI's indexes revealed that MSCI facilitates American capital flows to dozens of blacklisted PRC companies. It is unconscionable for any U.S. company to profit from investments that fuel the military advancement of America's foremost foreign adversary and facilitate human rights abuses. We therefore seek additional information regarding this deeply troubling matter.

As you know, index providers develop representative portfolios of security holdings—called indexes—that track a combination of assets. Investors use indexes as the basis for portfolios or funds. By including a company in one of its indexes, index providers give it a stamp of approval and encourage substantial investment into that company.

Few companies do so at the scale of MSCI. With over \$13 trillion benchmarked to its products, MSCI is one of the largest index providers in the world. Millions of Americans' savings and retirement accounts are invested in funds benchmarked to MSCI indexes.

Our review has shown that, as a direct result of decisions made by MSCI, these Americans are now unwittingly funding PRC companies that develop and build weapons for the People's Liberation Army (PLA)—the PRC's military—and advance the CCP's stated mission of technological supremacy. By facilitating massive flows of American capital to these and other PRC entities linked to the PLA or to human rights abuses, MSCI is exacerbating an already significant national security threat and undermining American values.

We conducted an initial review of certain MSCI-provided indexes to examine the extent to which those indexes include companies on a subset of the U.S. government (USG) blacklists (red-flag companies). Our initial review—which did not even cover one of the USG’s largest blacklists, the U.S. Department of Commerce’s Entity List—revealed that MSCI facilitates investment into dozens of blacklisted companies. The true scale is likely much larger.

We examined the MSCI All-Country World Index (ACWI), the MSCI Emerging Markets (EM) Index, the MSCI China Index, the MSCI China All Shares ESG Universal Index, and the MSCI China A Index. We reviewed each index to determine whether it included PRC companies designated on one of the USG red-flag lists bulleted below. The lists identify companies that pose national security risks to the United States, use or support forced labor, or are affiliated with the PLA or other elements of the PRC military and security apparatus.

We compared the companies included on each index to those PRC companies listed on a subset of the USG red-flag lists, specifically:

- The Uyghur Forced Labor and Prevention Act Entity List, which designates certain PRC companies that export to the United States and use or participate in forced labor (UFLPA List).
- The Non-SDN Chinese Military-Industrial Complex Companies List, which bars U.S. persons from purchasing or selling publicly traded securities of designated entities, which support the PRC’s “military, intelligence, and other security apparatuses” (NS-CMIC List).
- The list established by Section 889 of the John S. McCain National Defense Authorization Act for Fiscal Year (FY) 2019, which prohibits contractors from providing the USG with equipment from five PRC companies, their subsidiaries, and their affiliates (889 List).
- The list established by Section 1260H of the William M. “Mac” Thornberry National Defense Authorization Act for FY 2021, which identifies PRC military companies participating in military-civil fusion and operating in the United States (1260H List).
- The list established by Section 5949 of the James M. Inhofe National Defense Authorization Act for FY 2023, which prohibits federal procurement of certain semiconductor products and services provided by three PRC companies, their subsidiaries, and their affiliates (5949 List).
- The Federal Communications Commission’s “Covered List,” which identifies companies whose communications equipment and services “pose an unacceptable risk to the national security of the United States” and which bans future importation and sales of the companies’ communications offerings (FCC Covered List).

Our investigation identified at least 40 listed companies (or subsidiaries and affiliates of such companies) across the five indexes, many of which were included on multiple indexes. The proportion of red-flag companies varied by index, but as of March 1, 2023, nearly 5% of the total

value of the MSCI China A Index was pegged to companies on the red-flag lists above. The list of concerning companies included the following known PLA contractors:

- Seven subsidiaries of the Aviation Industry Corporation of China (AVIC), a state-owned enterprise that develops and produces aircraft for the PLA, including the 5<sup>th</sup> generation J-20 fighter jet. AVIC and its subsidiaries are listed on the NS-CMIC List, the 1260H List, or both.
- CGN Power Co., Ltd., the largest subsidiary of China General Nuclear Power Group (CGN). In 2019, the USG accused CGN of attempting to acquire advanced proprietary U.S. nuclear technology to divert to military uses in the PRC.<sup>1</sup> CGN is included on the 1260H List and the NS-CMIC List.
- Changsha Jingjia Microelectronics Co., Ltd., which develops and manufactures microelectronics for the PLA, particularly for use in radars, and built a commercial business using revenue from PLA contracts. It is on the NS-CMIC List.
- China CSSC Holdings Ltd., a holding company of China State Shipbuilding Corporation (CSSC). CSSC is one of the largest shipbuilders and PLA contractors. It designs and builds warships for the PLA Navy, including aircraft carriers. China CSSC Holdings Ltd. is on the 1260H list. Its parent company is on the NS-CMIC List.
- China Spacesat Company Limited, a subsidiary of the military research institute China Academy of Space Technology (CAST) and of the China Aerospace Science and Technology Corporation (CASC). CAST, CASC and China Spacesat develop and manufacture satellite products and play key roles in the CCP's Five Year Plan for an integrated commercial-military satellite network. China Spacesat is on the 1260H List, while CASC is on the NS-CMIC List.
- Semiconductor Manufacturing International Corporation (SMIC), one of the leading PRC semiconductor manufacturing firms and a vital supplier of chipsets to the PLA. It is on the 5949 and 1260H Lists.
- North Industries Group Red Arrow Company Limited, a subsidiary of China North Industries Group Co., Ltd., which produces ammunition, artillery shells, and munitions for the PLA. The subsidiary is on the 1260H List.

The indexes also included companies implicated in human rights abuses and the CCP's techno-totalitarianism:

- BGI Genomics Co., Ltd., an affiliate of the BGI Group, which collaborated with the PLA to collect genetic data on foreign persons without their consent and was found by the U.S. Department of Commerce to be complicit in supporting forced labor. BGI affiliates have

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<sup>1</sup> Elina Teplinsky et al., "Four China Nuclear Industry Companies Added to 'Entity List,'" *Pillsbury*, August 15, 2019, <https://www.pillsburylaw.com/en/news-and-insights/china-industry-entity-list.html>.

also provided genetic analysis and testing to the CCP to support the repression and genocide of Uyghurs.<sup>2</sup> BGI Genomics is on the 1260H List, while its parent company has been put on the Entity List.

- Hoshine Silicon Industry Co., Ltd, a Xinjiang-based company that produces silica-based products for use across the Chinese economy. Hoshine has been implicated in the use of Uyghur forced labor and is on the UFLPA Entity List.
- Qihoo 360, also known as 360 Security Technology Inc., whose software products have been linked to crackdowns, repression, and genocide in Xinjiang by “enabling [the PRC]’s high-technology surveillance” of Uyghurs.<sup>3</sup> Qihoo 360 is on the 1260H List.
- ZTE Corporation, whose cellphone and telecommunications infrastructure products enable the CCP to engage in espionage, fueling the CCP’s techno-totalitarian surveillance state and globally extending its reach.<sup>4</sup> ZTE was also found guilty of selling restricted U.S. phone technology to foreign adversaries like Iran and North Korea.<sup>5</sup> It is on the 889 and FCC Covered Lists.

In total, we have identified the following red-flag companies included on one or more MSCI indexes:

- AECC Aero-Engine Control Company Limited
- AECC Aviation Power Co., Ltd.
- Aerospace Ch Auv Company Limited
- AVIC Aviation High-Technology Company Limited
- AVIC Heavy Machinery Company Limited
- AVIC Helicopter Company Limited
- AVIC Industry-Finance Holdings Company Limited (a.k.a. AVIC Capital Company Limited)
- AVIC Jonhon-Optronics Technology Co., Ltd.
- AVIC Shenyang Aircraft Company Limited
- AVIC Xi’an Aircraft Industry Group Company Limited
- BGI Genomics Co., Ltd.
- CETC Cyberspace Security Technology Co., Ltd.

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<sup>2</sup> Philip Wang and Kathleen Magramo, “US adds Chinese genetics firms to trade blacklist over surveillance allegations,” *CNN.com*, March 2, 2023, <https://www.cnn.com/2023/03/02/business/us-blacklist-bgi-chinese-genetics-surveillance-companies-intl-hnk/index.html>; Kirsty Needham and Clare Baldwin, “EXCLUSIVE Prenatal test developed with Chinese military stores gene data,” *Reuters*, July 7, 2021, <https://www.reuters.com/business/healthcare-pharmaceuticals/exclusive-prenatal-test-developed-with-chinese-military-stores-gene-data-2021-07-07/>.

<sup>3</sup> David Shepardson and Karen Freifeld, “Dozens of Chinese companies added to U.S. blacklist in latest Beijing rebuke,” *Reuters*, June 7, 2020, <https://www.reuters.com/article/us-usa-china-blacklist-idUSKBN22Y2QR>.

<sup>4</sup> Sara Salinas, “Six top U.S. intelligence chiefs caution against buying Huawei phones,” *CNBC*, February 13, 2018, <https://www.cnbc.com/2018/02/13/chinas-huawei-top-us-intelligence-chiefs-caution-americans-away.html>.

<sup>5</sup> Karen Freifeld and Jiang Sijia, “China’s ZTE pleads guilty, settles U.S. sanctions case for nearly \$900 million,” *Reuters*, February 26, 2020, <https://www.reuters.com/article/us-usa-china-zte-idUSKBN16E1X1>.

- CGN Power Co., Ltd.
- Changsha Jingjia Microelectronics Co., Ltd.
- China CSSC Holdings Ltd.
- China Mobile Communications Group Company Limited
- China National Chemical Corporation Ltd. (ChemChina)
- China National Nuclear Corporation (CNNC)
- China National Nuclear Power Company Limited
- China Railway Construction Corporation Limited (CRCC)
- China Spacesat Company Limited
- China State Construction Group Company Limited
- China State Construction Engineering Corporation Limited
- China Telecommunications Corporation Group
- China National Offshore Oil Corporation (CNOOC)
- CNOOC Energy & Technology Services Limited
- Costar Group Company Limited
- CRRC Corporation Ltd.
- CSSC Offshore & Marine Engineering (Group) Company Limited
- Dawning Information Industry Company Limited
- Fujian Torch Electron Technology Company Limited
- Hoshine Silicon Industry Company Limited
- Inspur Electronic Information Industry Company Limited
- Jiangxi Hongdu Aviation Industry (Group) Corporation Limited
- North Industries Group Red Arrow Company Limited
- Offshore Oil Engineering Company Limited
- Qihoo 360
- Semiconductor Manufacturing International Corporation (SMIC)
- Zhejiang Dahua Technology Company Limited
- Zhuzhou CRRC Times Electric Company Limited
- ZTE Corporation

The inclusion of these companies on MSCI indexes is highly concerning, but these red flag lists represent only the tip of the iceberg. The CCP's strategy of military-civil fusion creates a very high risk that companies that produce dual-use technologies or are otherwise deeply connected to the PRC state may also be fueling the PRC's military development.

We would like to offer MSCI an opportunity to help Congress and the American people understand MSCI's inclusion of red-flagged PRC companies in its indexes. We therefore request that you respond to the following questions by August 14, 2023:

1. Please produce in machine readable format a list of all the companies included on MSCI indexes, and for each company, list the indexes on which that company is included.
2. Please provide a detailed description of the factors you consider when including companies in indexes:
  - a. Do you consult the USG red-flag lists described above? If so, why? If not, why not?

- b. Do you consult the Entity List? Why or why not?
  - c. Do you consult other red-flag lists, which may or may not be maintained by the USG? If so, which lists, and why? If not, why not?
  - d. For any lists that you consult, if a company is included on that list, is it automatically barred from inclusion on an MSCI index? If not, what weight is accorded to its inclusion on the list? How does inclusion on the list weigh into MSCI's decision-making? Please produce copies of all policies, procedures, and guidance documents related to such matters, as well as all communications, including electronic messages, regarding the development of such policies, procedures, or guidance.
  - e. Do you consider whether companies may be subject to secondary sanctions? If so, how do you determine whether they are subject to secondary sanctions and what is your process for determining the risk of loss from those companies? Please produce copies of all policies, procedures, and guidance documents related to such matters, as well as all communications, including electronic messages, regarding the development of such policies, procedures, or guidance.
  - f. Do you consider national security factors? If so, how do they weigh into the decision-making process? If not, why not?
  - g. Do you take into account companies' human rights records or concerns? If so, how do they weigh into the decision-making process? If not, why not?
  - h. How do geopolitical risks factor into your considerations, if at all?
  - i. How has your internal, overarching policy toward including PRC companies on your indexes varied from 2010 to the present?
3. Please produce all policies, procedures, and related guidance documents pertaining to conflicts of interest and how MSCI's Oversight Committee and other governing bodies have applied such policies, procedures, and related guidance with respect to the engagements with public or private entities based in or with significant operations in the PRC.
- a. Please produce all communications, including electronic messages, and documents exchanged with any public or private party MSCI understood to be acting on behalf of the PRC, including any state-owned enterprise or CCP-related company, related to the inclusion of PRC companies in MSCI's indexes. Please similarly produce any internal communications, including electronic messages, discussing or pertaining to any interaction with any public or private party MSCI understood to be acting on behalf of the PRC, including any state-owned enterprise or CCP-related company, related to the inclusion of PRC companies in MSCI's indexes.
  - b. During 2022, how much revenue did MSCI generate from companies and individuals based in the PRC?
  - c. Has the United Kingdom's Financial Conduct Authority (FCA) or the European Securities and Markets Authority (ESMA) inquired to you about any conflicts of interest with respect to any PRC companies? Please produce any communications, including electronic messages, or documents exchanged with the FCA or ESMA related to such matters.

4. Are you able to perform thorough due diligence on all PRC companies included in your indexes, including those listed on the USG red-flag lists or any other red-flag lists? If so, how and through what means do you do so? If not, what is your process for determining whether to include those companies in your indexes?
  - a. How has your ability to perform due diligence on all PRC companies included in your funds varied from 2010 to the present? Have certain CCP laws, acts, statutes, or other legal or regulatory provisions made it easier or harder to perform due diligence? Which, if so, and how?
  - b.
5. What transparency do you provide to the public and to investors regarding the inclusion of red-flag companies in your indexes?
  - a. Is this information provided to investors and managers that benchmark funds to your indexes?
  - b. Do those entities ever request information regarding the inclusion of red-flag companies in your indexes?
6. Please produce a full list of indexes that you provide, specifically identifying each index that includes any company identified in this letter.
7. For each index identified in Question 6, please provide a detailed summary of the index and a breakdown of U.S. investor exposure, as of June 30, 2023, January 1, 2023, and January 1, 2022, including, but not limited to, answering the below questions:
  - a. Which companies identified in this letter or otherwise designated on the USG red-flag lists are included in the index?
  - b. Which companies designated on any other list that MSCI reviews are included in the index?
  - c. Which subsidiaries and affiliates of companies identified in questions 7a and 7b are included in the index?
  - d. Please produce the weighting for each company identified in questions 7a-7c in the index for each date.
  - e. Please produce the weighting for each company included on the index that is based in or has its primary operations in the PRC.
  - f. Which entities, companies, and funds are licensed by MSCI to track, benchmark against, or otherwise utilize the index?
  - g. What was the total value of the assets under management benchmarked against the index at each date?

The House Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party has broad authority to “investigate and submit policy recommendations on the status of the Chinese Communist Party’s economic, technological, and security progress and its competition with the United States” under H. Res. 11. Upon your receipt of this letter, please maintain and preserve all hard copy and electronic documents, including electronic communications, related to the subject matter of this letter.

To make arrangements to deliver a response, please contact Select Committee staff at (202) 226-9678 (Majority) and (202) 225-2489 (Minority).

Thank you for your attention to this important matter and prompt reply.

Sincerely,

A blue ink handwritten signature, appearing to be 'MG', followed by a horizontal line.

Mike Gallagher  
Chairman

A blue ink handwritten signature, appearing to be 'Raja Krishnamoorthi', followed by a horizontal line.

Raja Krishnamoorthi  
Ranking Member